

ORIGINAL

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF MIDWEST NATURAL GAS  
CORPORATION FOR APPROVAL OF  
CHANGES IN ITS GAS RATES THROUGH A  
GAS COST ADJUSTMENT IN ACCORDANCE  
WITH IND. CODE §8-1-2-42(g)

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) CAUSE NO. 37440 GCA 92 S1  
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) APPROVED: MAR 22 2007

**BY THE COMMISSION:**

**Gregory D. Server, Commissioner**  
**Loraine L. Seyfried, Administrative Law Judge**

On November 9, 2006, in accordance with Indiana Code § 8-1-2-42, Midwest Natural Gas Corporation ("Midwest" or "Petitioner") filed its Petition for a Gas Cost Adjustment with this Commission seeking, among other matters, the recovery of gas cost variances. On December 22, 2006, Midwest prefiled the Verified Testimony of David A. Osmon, Midwest's Executive Vice President and Chief Operating Officer. On January 9, 2007, the Indiana Office of Utility Consumer Counselor (OUCC) filed the Statistical Report and Direct Testimony of Patrick Callahan, CPA.

At the hearing held on January 12, 2007, in Room E306, Indiana Government Center South, Indianapolis, Indiana, in which both the Petitioner and the OUCC participated, the parties requested that a particular variance recovery raised by the Petitioner be examined in a subdocket of this Cause. As part of the Commission's Order of January 31, 2007, we found such proposal of the parties reasonable and initiated this subdocket.

Pursuant to notice duly published as required by law, proof of which was incorporated into the record by reference and placed in the official files of the Commission, a public hearing was held in this subdocket at 2:00 p.m. on February 20, 2007, in Room E306, Indiana Government Center South, Indianapolis, Indiana. The Petitioner and the OUCC were present and participated. The Petitioner offered the testimony of its witness David A. Osmon, Petitioner's Executive Vice President and witness in the prior proceedings in this Cause. The OUCC indicated that it would be filing no further evidence in this Cause. No members of the general public appeared or sought to testify at this hearing.

Based upon the applicable law and the evidence presented herein, the Commission now finds:

1. **Statutory Notice and Commission Jurisdiction**. Due, legal, and timely notice of the hearing in this Cause was given and published by the Commission as required by law. Petitioner is a public utility providing natural gas services to customers within Indiana, and as such, is subject to the jurisdiction of this Commission as provided in the Public Service

Commission Act, as amended. The provisions of said Act authorize the Commission to act in this proceeding. The Commission therefore has jurisdiction over the parties and the subject matter herein.

2. **Petitioner's Characteristics.** Petitioner is a corporation duly organized and existing under the laws of the State of Indiana. Petitioner owns, operates, manages, and controls plant and equipment used for the distribution and furnishing of natural gas service to customers within Clark, Daviess, Greene, Knox, Jackson, Jennings, Monroe, Orange, Scott, and Washington Counties in Indiana.

3. **Relief Requested.** Petitioner seeks the recovery of a variance in the amount of \$186,999 relative to gas costs not previously recovered in prior GCAs. The Petitioner's Prefiled Direct Testimony indicates that the Petitioner and the OUCC have agreed to the recovery of this variance beginning in GCA 93.

4. **Evidence of the Parties.** The Petitioner's evidence in this Cause has been presented to us by way of the original Prefiled Testimony of December 22, 2006, of its witness Osmon; the subsequent Prefiled Direct Testimony of February 15, 2007, of its witness Osmon, as amended on February 19, 2007; and the Direct Testimony of witness Osmon to the questions of this Commission as of the hearing in this Cause. Mr. Osmon explained that the GCA process is designed to recover the cost of gas not already included in base rates. A portion of such costs includes the cost associated with unaccounted for gas. Petitioner's unaccounted for gas is significantly below 1%. The problem Petitioner has experienced is the variation between the price used for unaccounted for gas in the GCA process going into the fall of the year versus the price used for unaccounted for gas in the GCA process in the spring of the year. As Mr. Osmon explained, historically any under-recovery caused by price variations would be offset by over-recoveries caused by price variations during the course of a full twelve months. In the twelve-month period ending September 2006, Mr. Osmon explained that Petitioner's under-collection was substantial and not offset by an over-recovery.

Petitioner in its initial testimony filed in December of 2006 requested recovery of a variance of \$243,221. As reflected here, Petitioner has agreed to a compromise with the OUCC reflecting a slightly different period of time in reducing the recovery to \$186,999. Petitioner filed at the hearing in this Cause as Petitioner's Exhibit 2, a revised Exhibit DAO-1. Although having previously filed evidence in this Cause, the OUCC indicated that it would file no further evidence nor would it object to Petitioner's request.

5. **Commission Discussion and Findings.** The GCA process is designed to generally keep natural gas distributing companies whole relative to the costs of gas acquired from third parties. While the Commission has recently made inquiries into the practices of natural gas distributing companies in acquiring gas, there is no issue in this particular sub-docket relating to Petitioner's practices.

Where a natural gas distributing company over-recovers or under-recovers the actual cost of gas, the GCA process requires that such variance be returned or recovered in a subsequent similar period. Here it is clear from the evidence of record that this particular Petitioner has significantly under-recovered the cost of gas related to the unaccounted for gas portion of the

commodity acquired compared to the actual unaccounted for gas volumes. The amount of unaccounted for gas that an Indiana gas utility may recover is set as a percentage of total gas costs, not total volumes, in the utility's most recent base rate case. There was no evidence presented nor any concern expressed by the OUCC related to this Petitioner indicating the amount of the requested recovery of unaccounted for gas costs is beyond the amount allowed in Petitioner's most recent base rate case.

The GCA process is designed to keep a natural gas distributing company whole as it relates to the recovery of gas costs reasonably incurred. Therefore, in this circumstance, it is reasonable to include a variance to recover the actual cost this Petitioner has experienced. We also note that the evidence of record reveals that this Petitioner having met with the OUCC has agreed to change its calculations as part of the GCA process to reduce the chance that this type of a significant variance will reoccur. We agree with the Petitioner and the OUCC that such steps should be taken.

Finally, we note that the Petitioner has proposed that since this variance occurred over a twelve-month period, it should be recovered over a similar twelve-month period. We therefore find Petitioner's proposal to initiate this variance in GCA 93 and continue it through GCAs 94, 95, and 96 to be reasonable and hereby authorize Petitioner to do the same.


**IT IS THEREFORE ORDERED BY THE INDIANA UTILITY REGULATORY COMMISSION that:**

1. The Petition of Midwest Natural Gas to begin recovery of a variance in the cost of gas in the amount of \$186,999 as set forth in our finding paragraph No. 5 shall be and hereby is approved.
2. Midwest shall file schedules in GCA 93 reflecting the initial recovery of this variance.
3. This Order shall be effective on and after the date of its approval.

**GOLC, LANDIS, SERVER AND ZIEGNER CONCUR; HARDY ABSENT:**

**APPROVED:** MAR 22 2007

**I hereby certify that the above is a true and correct copy of the Order as approved.**

  
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**Connie S. Childress**  
**Acting Secretary to the Commission**